

# **EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE**

## **MINUTES OF THE MAY 20, 2009 PENSION BOARD MEETING**

### **1. Call to Order**

Chairman Dr. Dean Roepke called the meeting to order at 8:35 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

### **2. Roll Call**

#### Members Present:

Linda Bedford (Vice Chair)

Donald Cohen

Keith Garland

Mickey Maier

Jeffrey Mawicke

Dr. Sarah Peck

Dr. Dean Roepke (Chairman)

Guy Stuller

#### Members Excused:

Marilyn Mayr

#### Others Present:

Mark Grady, Principal Assistant Corporation Counsel

Gerald Schroeder, ERS Manager

Dale Yerkes, Assistant to the Fiscal Officer

Vivian Aikin, ERS Administrative Specialist

Sushil Pillai, Milwaukee County Program Manager

John F. Weishan, Jr., County Supervisor

Bess Frank, Ad Hoc Oversight Committee

Steven Huff, Reinhart Boerner Van Deuren s.c.

Leigh Riley, Foley & Lardner LLP

Brett Christenson, Marquette Associates, Inc.

Ray Caprio, Marquette Associates, Inc.

William J. Supple, Robeco Boston Partners

Robert J. Maurer, Robeco Boston Partners

Mark Donovan, Robeco Boston Partners

Michelle Hayes, Disability Applicant

Ken Loeffel, Retiree

Yvonne Mahoney, Retiree

Esther Hussey, Retiree

Gloria Yelezyn, Retiree

3. Chairman's Report

The Chairman reported that the Pension Board settled its litigation with Mercer Human Resource Consulting, Inc. for \$45 million, of which the Employees' Retirement System of the County of Milwaukee will receive more than \$30 million to invest.

The Pension Board discussed whether it should hold its August 19, 2009 meeting.

Mr. Maier stated that he will be unable to attend the meeting if it is held.

Mr. Christenson noted that Marquette has numerous investment-related items that will need to be discussed at upcoming meetings. The Chairman indicated that the topic of whether to hold the August meeting should be added to the June meeting agenda.

The Chairman reminded all Board members of the longstanding continuing education policy, which allows attendance at three educational conferences outside the greater-Milwaukee area per year. He noted that the educational policy encourages all Board members to attend 30 hours of continuing education per year and new Board members to attend new trustee training as soon as possible.

4. Minutes of the April 15, 2009 Pension Board Meeting

The Pension Board reviewed the minutes of the April 15, 2009 Pension Board meeting.

**The Pension Board unanimously approved the minutes of the April 15, 2009 Pension Board meeting. Motion by Mr. Maier, seconded by Ms. Bedford.**

5. Reports of Employee Benefits Director, ERS Manager and Fiscal Officer

(a) Retirements Granted

Mr. Schroeder presented the Retirements Granted Report for April 2009. He reported that 47 retirements were granted in April, noting that 21 retirees elected back DROPs, in amounts totaling \$1,682,310.

(b) ERS Monthly Activities Report

Mr. Schroeder indicated that there were 7,321 retirees at the end of April and that ERS paid out \$13,333,562 in benefit payments in April. He pointed out that the only in-process item on the activities report is the imaging of documents for the V3 System.

Mr. Schroeder discussed the progress of the Retirement Office's quality assurance initiative. He reported that the Retirement Office staff is evaluated on its V3 performance on a monthly basis. He stated that the Retirement Office staff will take another V3 competency test in July. He indicated that the Retirement Office

intends to reduce the use of consultants working on the V3 System by the end of 2009.

Mr. Schroeder reported that the mezzanine records room project is progressing well. He commented that the Retirement Office is retaining all historical documents in one of several nonpaper formats and is destroying certain records consistent with its approved records retention policy.

He noted that the Retirement Office has an intern, funded through the Department of Human Resources, who is verifying the addresses of 7,000 OBRA members. He stated that the Retirement Office is now performing a death match between the Social Security Administration's and ERS's records on a quarterly basis instead of an annual basis.

(c) Demographic Report.

Mr. Schroeder reviewed the results of the ERS demographic report, which provides an overview of ERS's retiree population. He commented that some statistics are surprising, including the number of single retirees. Dr. Peck stated that widows and widowers may account for the high percentage of single retirees.

(d) Waivers – Rollin Bertran – Director of Highway Operations

Mr. Schroeder reported that four benefits waivers were submitted to the Retirement Office by Mr. Bertran, Director of Highway Operations.

**The Pension Board unanimously agreed to accept the waivers presented by Mr. Bertran. Motion by Mr. Cohen, seconded by Mr. Stuller.**

(e) Cash Flow Report

Mr. Yerkes presented ERS's cash flow report. He reported that the cash flow requests of \$5 million for May and \$10 million for June have already been approved and will be drawn from the cash overlay account.

Mr. Yerkes stated that the Fiscal Officer's office and the Retirement Office worked together to publish five procedures, which include procedures on approving payments and preparation and maintenance of the ERS budget. He also noted that procedures were developed summarizing the guidelines for seminars, conventions and travel. He stated that three forms were created to process expense reimbursements for seminars, conventions and travel expenses.

6. Investments

(a) Investment Manager Report – Robeco Boston Partners

The Robeco Boston Partners ("Robeco") representatives distributed and presented a report on Robeco's management of ERS's large cap value equity strategy.

Mr. Supple introduced himself and Messrs. Maurer and Donovan. Mr. Maurer stated that Robeco is an operating arm of Rabobank, which is a private bank with just over \$1 trillion in assets. He indicated that Robeco manages over \$6.6 billion in assets. He reviewed all of Robeco's investment strategies, noting that ERS is invested in its flagship strategy, large cap value. He discussed the composition of the investment management team.

Mr. Donovan stated that ERS's portfolio was valued at \$82,952,398 at the end of April. He indicated that Robeco has been managing ERS's portfolio for almost 14 years and has outperformed its benchmark by 160 basis points gross of fees since inception. He noted that Robeco has outperformed its benchmark for all timeframes shown for ERS's portfolio. He commented that 2008 was the worst year for investing of his career. He explained that Robeco was always fully invested during 2008 and the stocks it chose went down less than the average for 2008. He reported that Robeco was up 2.2% for 2009 through May 19 and approximately 500 basis points ahead of the Russell 1000 Value Index.

Mr. Donovan reviewed ERS's performance attribution. He indicated that energy, technology and consumer services stocks have performed well for ERS. In response to a question from the Chairman, Mr. Donovan stated that Robeco made money in the consumer services sector by selecting companies with strong balance sheets, which allows a company to perform well in a tight credit environment. In response to a question from Ms. Bedford, Mr. Donovan explained that Robeco continues to have a large allocation to the finance sector, but is moving to higher quality companies, and avoiding exposure to banks and balance sheet risk.

Dr. Peck inquired about Robeco's selling methodology. Mr. Donovan stated that Robeco purchases companies that: (1) have strong business fundamentals, (2) are selling at a bargain price, and (3) have a catalyst to unlock value. He indicated that Robeco will sell when one of the three requirements are no longer met, such as the stock reaching its target price because the stock is no longer at a bargain price. He explained that Robeco has a bias towards selecting higher quality companies with strong fundamentals.

Mr. Donovan discussed how the economy slid into a recession. He noted that it is too early to tell if there has been a recovery because there is still a great deal of instability and trouble with companies. He commented that Robeco is looking for

companies that are generating a large amount of free cash flow and that factor will widen the gap with competitors.

In response to a question from the Chairman, Mr. Donovan stated that Robeco will not be reducing its holdings in financials. He explained that most of the companies Robeco holds in this sector are good performers and that Robeco is broadly diversified within the sector. He indicated that Robeco likes property and casualty insurers and not life insurance companies. He noted that Robeco does not have a large amount of exposure to banks and brokerages.

In response to a question from the Chairman, Mr. Donovan explained that leveraged positions and speculation in the oil and gas markets contributed to the drastic increase in gas prices. He pointed out that the level of oil and gas consumption has not yet rebounded.

(b) Marquette Associates, Inc. Report

Mr. Christenson distributed and presented from ERS's first quarter performance report. He reviewed the performance of each asset class for the first quarter. He stated that fixed income can be a volatile investment class. He commented that it is important to look at fixed income during the asset allocation study. He indicated that Marquette believes fixed income is a necessary asset class that provides liquidity to a portfolio. He pointed out that fixed income investments can have dramatic losses and be illiquid in turbulent markets. He noted that fixed income performs similar to the equity market. He repeated that there was a drastic reversal in the first quarter of 2009 as junk bonds performed well but highly rated fixed income securities performed poorly.

Mr. Christenson reviewed the performance of the major market indices for the first quarter, noting that there was a strong rally in the equity market. He stated that now is an interesting time to buy equities because the current P/E ratios for equities in the S&P 500 are well below their historical average. He opined that the lower P/E ratios may indicate that the market was oversold and may be starting to even out.

Mr. Christenson discussed the global economic environment and its impact on ERS. He stated that the value of the dollar has a direct impact on international investment managers. He indicated that Marquette believes that it is highly likely that the U.S. dollar will weaken relative to other currencies over the next ten years due to the government infusing money into the economy. As a result, he suggested that ERS should have a healthy exposure to foreign equities. Mr. Christenson noted that ERS currently has good exposure to foreign equities.

Mr. Christenson reviewed the major actions taken by Marquette in the past several months. He stated that the transition manager RFP was issued on May 6, 2009. He indicated that the cash overlay performance has been positive and that \$20 million continues to be overlayed per week. He reported that ERS anticipates receiving over \$30 million from the Mercer settlement. He recommended that these funds be allocated to the pension obligation bond cash overlay account. In response to a question from Mr. Grady, Mr. Christenson stated that the settlement money will be the last money to be overlayed, but noted that the money will most likely be allocated to investment managers by that time.

**The Pension Board unanimously agreed to accept Marquette's recommendation to transfer the \$30 million in proceeds from the Mercer settlement when received to the pension obligation bond cash overlay account. Motion by Dr. Peck, seconded by Mr. Maier.**

Mr. Christenson stated that the Investment Committee started discussing the issuance of investment manager RFPs at its last meeting. He indicated that the Investment Committee wanted to issue two RFPs: one RFP to complement AQR in the small cap value space and one for an emerging markets investment manager. Dr. Peck commented that the RFPs are part of the asset allocation project. Mr. Grady noted that there is no cost to ERS in issuing a request for proposal except for Retirement Office staff time. Mr. Christenson confirmed that Marquette does not charge any additional fees for issuing these RFPs because they are part of its commitment with ERS. In response to a question from Mr. Stuller, Mr. Grady and the Chairman stated that an evaluation panel comprised of Pension Board members and others evaluates the response and makes a recommendation to the full Pension Board.

Mr. Christenson stated that an investment manager RFP is normally sent to prequalified and predetermined investment managers and Marquette may receive other responses. He indicated that Marquette narrows the list and the remaining candidates are then reviewed in-depth in a formal search book. He pointed out that the evaluation panel would interview at least three candidates and then select the manager. Mr. Stuller stated that he probably would like to participate on one or both of the evaluation panels.

**The Pension Board unanimously agreed to approve Marquette issuing RFPs for a small cap value investment manager and an emerging markets investment manager. Motion by Mr. Maier, seconded by Mr. Stuller.**

Dr. Peck stated that she would like Marquette to prepare a correlation of asset classes in up and down markets, using indices, as part of the asset allocation study. Mr. Christenson indicated that Marquette will use its custom index for infrastructure for the correlation study.

Mr. Caprio stated that ERS's market value as of March 31, 2009 was approximately \$1.09 billion. He reviewed ERS's asset allocation percentages for each asset class. He noted that fixed income was significantly overweight at 53.5%, compared to its 42% target. He pointed out that fixed income does not need to be rebalanced because the market rally in April has brought the allocations more in line with their targets. Mr. Christenson commented that the numbers in the report exclude the pension obligation bond proceeds.

In response to a question from the Chairman, Mr. Caprio stated that the April figures will be finalized shortly. In response to a follow-up question, Mr. Caprio replied that it is unusual to have a lag in reporting the performance figures. Mr. Caprio indicated that the payment of the pension obligation bond proceeds will be shown under cash equivalents on the monthly report. He noted that Bank of New York Mellon – BETA Management overlays approximately \$20 million each Friday and overlays this money in a method to rebalance the previously overlayed money to the targeted benchmark allocation.

Mr. Caprio reviewed the performance of each asset class for the first quarter of 2009. He noted that ERS is in the top 30% for total public funds and the top 33% for all funds over \$1 billion in the Wilshire Cooperative Universe. He stated that ERS was down 22.4% for 2008 and was down 4.2% for the first quarter 2009. He commented that active management has paid off for ERS. He reported that most managers outperformed their benchmarks and are generally doing well. He expressed concern over Loomis Sayles, noting that there was a rebound in its high-yield strategy, but its core fixed income strategy is down for the year. He pointed out that midcap growth has been the best performing strategy this year.

Mr. Caprio stated that this will be the last time that Capital Guardian is listed on the performance report for Capital Guardian. In response to a question from the Chairman, Mr. Caprio indicated that ERS's funds will be transferred from Capital Guardian on May 29. In response to a question from Ms. Bedford, Mr. Christenson stated that ERS will not need a transition manager for terminating Capital Guardian because the actual investments will be transferred.

Mr. Caprio pointed out that Reinhart's benchmark was switched to Russell Mid Cap Growth index on this report. Mr. Christenson commented that April's report showed better performance and may possibly be positive. The Chairman reminded the Board that the Adams Street Partners annual meeting is on June 4, 2009.

(c) Investment Committee Report

Dr. Peck reported on the May 4, 2009 Investment Committee meeting. She indicated that Marquette presented educational sessions on asset allocation and infrastructure. The Chairman requested that Marquette provide all Board members

copies of materials it distributes to the Investment Committee. Dr. Peck stated that Marquette made several recommendations at the meeting regarding asset allocation, but the Investment Committee did not yet implement any recommendations. Ms. Riley pointed out that Marquette is recommending adding several new asset classes and she suggested that Marquette explain some of the new asset classes over the course of several meetings.

7. Audit Committee Report

Mr. Stuller reported on the April 23 and May 8, 2009 Audit Committee meetings. He indicated that the Audit Committee discussed proposed revisions to Rule 1013 and the possible creation of Rule 1043 relating to beneficiary designations. The Audit Committee also reviewed a proposed Audit Committee charter. Mr. Grady noted that ERS will receive ERS's annual financial audit results in May and Virchow Krause will present the results to the Audit Committee in July and to the entire Pension Board in August.

8. Vitech Project and Implementation Oversight Committee Reports

Mr. Pillai presented the V3 System status report. He pointed out that the report is in the same format. He indicated that Mssrs. Mueller and Yerkes now maintain the V3 System budget. Mr. Pillai noted that the budget group meets twice per month to review the budget. He stated that he has updated the risk quadrant. He reported that he plans on attending every other Pension Board meeting to provide a project update.

Mr. Pillai told the Pension Board that there is still a significant workload in three main segments. He stated that the first segment addresses immediate concerns. He pointed out that all of the Ceridian interface inconsistencies discovered during March and April have been corrected. He indicated that the next segment will involve self-service features for active employees and retirees. He noted that he could train Board members on the self-service feature. He commented that the self-service feature will be released in two parts, with the basic features released in June and additional functions installed in August.

Mr. Pillai discussed the items contained in segment three. In response to a question from Mr. Grady, Mr. Pillai stated that the new ERS IT specialist will eventually take over Mr. Pillai's functions. During stage three, tests will be conducted to validate and automate most of the technology systems. He explained how the IT specialist's role will be less technical and will focus more on business functions.

In response to a question from the Chairman, Mr. Pillai stated that the V3 System is interfaced with the Social Security death index. Mr. Pillai explained that the backlog of processing some deaths was created by the old manual system, but he noted that ERS is still not notified of some deaths. In response to a question from the Chairman, Mr. Pillai indicated that the V3 System immediately stops issuing pension payments upon



notification of a member's death even though it may take between two to four months to obtain death certificates.

In response to a question from a retiree, Mr. Pillai stated that voluntary assignments of pension payments will be part of segment three, which will be released in July. Mr. Pillai indicated that setting up the V3 System to permit voluntary assignments is a one-time system-level cost. He discussed that a pension payment will be able to be electronically transferred to up to seven separate accounts, including DC48 dues.

In response to retiree questions, Mr. Pillai stated that April was a problem-filled month and he has been meeting with Mssrs. Arena and Schroeder each Friday to resolve any problems. He noted that he follows up on all issues and is being proactive with quality assurance measures. He noted that two employees are answering the phones during regular business hours. He pointed out that he is validating 10-13 members who have major issues. Mr. Pillai indicated that he is receiving an exception report and he encouraged all members to call the number on their check stub or direct deposit advice to report any problems.

A retiree stated that taxable and non-taxable items are being combined on her check stub. Mr. Pillai noted that payments will be broken down into taxable, non-taxable and annuity as part of segment three. In response to a question on the status of the life and health module, Mr. Pillai indicated that this will be addressed with the self-service module.

9. Administrative Matters

The Chairman discussed several upcoming conferences, including the International Foundation's annual conference, the Wharton School portfolio management conference and the National Association of Public Pension Attorneys ("NAPPA") annual meeting. Mr. Grady stated that his attendance at the NAPPA conference is more relevant and beneficial to his role with the Pension Board than the International Foundation conference. He indicated that Corporation Counsel pays his membership fees but not conference fees. Mr. Huff stated that the NAPPA conference is a valuable public sector attorneys' conference.

**The Pension Board unanimously approved Mr. Grady's attendance at the NAPPA annual conference from June 23-26, 2009 in Portland, Oregon. Motion by Mr. Cohen, seconded by Mr. Maier.**

Dr. Peck stated that securities lending and brokerage could be removed from the future topics list.

10. Disability Pensions

- (a) Applications. The Pension Board reviewed reports from the Medical Board relating to several members' disability applications.

(i) Phyllis Bateman – ODR

**After reviewing and discussing the Medical Board's report, the Pension Board unanimously approved Ms. Bateman's ordinary disability application based upon the recommendation of the Medical Board. Motion by Mr. Cohen, seconded by Ms. Bedford.**

(ii) Michelle Hayes – ODR

**After reviewing and discussing the Medical Board's report, the Pension Board unanimously approved Ms. Hayes' ordinary disability application based upon the recommendation of the Medical Board. Motion by Mr. Cohen, seconded by Dr. Peck.**

(iii) Jeffrey Kuehne – ADR

**After reviewing and discussing the Medical Board's report, the Pension Board unanimously approved Mr. Kuehne's accidental disability application based upon the recommendation of the Medical Board. Motion by Mr. Cohen, seconded by Ms. Bedford.**

(iv) Carol Tolbert – ADR/ODR

**After reviewing and discussing the Medical Board's report, the Pension Board unanimously approved Ms. Tolbert's ordinary disability application based upon the recommendation of the Medical Board and denied her accidental disability application based upon the recommendation of the Medical Board. Motion by Mr. Cohen, seconded by Mr. Maier.**

(b) Medical Reexaminations – Update

Mr. Schroeder provided an update of the status of the medical reexamination project. He indicated that 42 cases needed to be reexamined and that 22 have been referred to the Medical Board. He reported that 15 of the 22 are in process and the other seven are exempt from reexamination. Mr. Grady stated that a member is exempt from reexamination if the type of disability is unlikely to ever improve. Mr. Schroeder stated that 20 cases have yet to be referred and he expects all of the cases to be reviewed by the end of 2009.

(c) Lori Jemison – Application of Earned Income Limitation

Ms. Bedford moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f) with regard to item 10(c) for considering the financial, medical, social or personal histories of specific persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of any person referred to in such histories and under section 19.85(1)(g), with regard to items 10(c), and 11(b) for the purpose of the Board receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

**The Pension Board voted by roll call vote 8-0 to enter into closed session to discuss agenda items 10(c) and 11(b). Motion by Ms. Bedford, seconded by Mr. Cohen.**

The Pension Board discussed Ms. Jemison's earned income situation in closed session. Upon returning to open session, Mr. Grady described Ms. Jemison's situation relating to excess earnings. He indicated that she had two jobs at the time that she became disabled: a County job and a non-County job. He explained that the way the Ordinances were applied to her by ERS Retirement Office staff, her earnings would be in excess of the allowable earnings limit and she would not have been able to receive a disability pension. Mr. Grady recommended that the Pension Board settle with Ms. Jemison by having her repay \$5,500 in excess earnings and agreeing for purposes of Ordinance section 201.24(10.2) that Ms. Jemison's final average salary in 2001 was \$95,000 subject to a \$1,900 cost-of-living increase, for each year after 2001.

**In open session, the Pension Board voted 6-2, with Messrs. Stuller and Maier dissenting, to approve Corporation Counsel's recommended settlement with Ms. Jemison. Motion by Dr. Peck, seconded by Ms. Bedford.**

11. Pending Litigation

(a) *Milwaukee County, et al. v. Mercer Human Resource Consulting*

The Pension Board noted *Milwaukee County, et al. v. Mercer Human Resource Consulting* has settled.

(b) *Mark Ryan, et al. v. Pension Bd.*

The Pension Board discussed the Mark Ryan litigation in closed session. Upon returning to open session, Mr. Grady stated that Mark Ryan filed a lawsuit against the Pension Board regarding the validity of his pension benefit waivers.

Mr. Grady indicated that the Pension Board could assume the defense of the lawsuit and retain legal counsel to defend the lawsuit. The Chairman stated that, to make a timely filing of the claim with the carrier, he directed Reinhart to send a letter to ERS's insurance company notifying it that the Pension Board will, upon Board ratification, assume defense of this lawsuit.

**In open session, the Pension Board unanimously agreed to ratify the Chairman's direction to notify ERS's insurance company that the Pension Board is assuming the defense of the Mark Ryan lawsuit pursuant to its insurance policy with Illinois National Insurance Company and retaining the law firm of Reinhart Boerner Van Deuren s.c. as legal counsel to defend this lawsuit. Motion by Mr. Stuller, seconded by Mr. Maier.**

12. Report on Special Investigation

The Pension Board determined that there is nothing new to report regarding the special investigation.

13. Report on Compliance Review

The Pension Board determined that there is nothing new to report regarding the compliance review.

14. Adjournment

The meeting adjourned at 12:25 p.m.

Submitted by Steven D. Huff,  
Secretary of the Pension Board